

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
INDUSTRIAL DEVELOPMENT BONDS**

Meeting Date: August 28, 2007

Request for Initial and Final Resolution for Tax Exempt Bond Approval

Prepared by: *Michael Smith*

Issuer:	California Statewide Community Development Authority (CSCDA)	Amount Requested:	\$8,000,000
Borrower:	American Biodiesel, Inc. and/or an affiliate	Application No.:	07-0015
User:	American Biodiesel, Inc. and/or an affiliate	IR & FR No.:	07-0015
Location:	Stockton (San Joaquin County), CA		

Borrower/User/Background: American Biodiesel, Inc. (dba Community Fuels) and/or an affiliate (the “Company”) was incorporated in California on December 3, 2004. The Company produces high-quality biodiesel fuel and, as a by-product of the biodiesel, glycerin.

Project Information: The Company will lease land and a 40,000 square-foot warehouse building from the Port of Stockton. The term of the initial lease is three years (with options to extend the lease for four additional five-year periods for a total lease term of up to 23 years).

The Project involves the renovation of the existing warehouse building to add a processing area, control room, boiler room, laboratory, and restrooms. The Project also includes the purchase and installation of biodiesel manufacturing equipment on the leased land. A two-acre open yard will be graded and concrete slabs will be built to support (1) storage tanks for feedstock, chemicals, and the finished products; (2) a cooling tower; 3) a distillation column; and (4) an emergency generator. This area will also accommodate loading and unloading equipment, an office trailer, and a parking lot. The Project is being designed to initially produce approximately 7.5 million gallons per year of biodiesel.

According to the Company, biodiesel is most commonly used for blending with petroleum diesel. The Company plans to sell the biodiesel produced at the Stockton facility to fuel distributors, which will manage the blending process and will sell the blended fuel to the end-users. Community Fuels anticipates that the end-users of the biodiesel fuel will be a sampling of the traditional diesel markets, which include agriculture, the construction industry, commercial trucking fleets, and public sector fleets belonging to cities, counties, school districts, and the military.

The Company also will produce crude glycerin, which is a by-product of biodiesel. The glycerol (commercial name for glycerin) will be sold wholesale in bulk to third parties for use in various industrial applications.

Anticipated Timeline: Construction at the site and renovation of the building began on April 10, 2007 and are anticipated to be completed by January 31, 2008. Commercial operation is anticipated to commence on approximately February 28, 2008.

Prior Actions/Financing: None

Local Government Support: None received.

Statutory Criteria: 1) Public Benefits, 2) Relocation, and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent with CDLAC guidelines. However, CDLAC does not require the evaluation of points for all statutory criteria.

PUBLIC BENEFITS: Consistent with CDLAC guidelines, staff has awarded a total of 38 verifiable points to the Project. The Project was not awarded points for job creation and/or job retention.

RELOCATION OF COMPANY OPERATIONS (No point evaluation required): The Company's headquarters will remain at its current location in Encinitas, California. This Project involves the Company's first biodiesel manufacturing facility which will be located in Stockton, California.

QUALIFICATION OF BOND ISSUANCE (No point evaluation required): Based upon the proposed financial structure and based upon the application and other materials submitted to CIDFAC for the proposed Project, staff believes the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just, and equitable to a purchaser of the bonds; and (c) will not work a fraud upon the bond purchaser. Final determination of qualification of the bonds will be subject to review of final bond documents prior to the issuance of bonds.

Status Of Permit/Other Required Approvals:

- The California Statewide Communities Development Authority (CSCDA) approved the Inducement Resolution in an aggregate amount not to exceed \$5,000,000 for the Project on May 15, 2006. It approved a second Inducement Resolution in an aggregate amount not to exceed \$10,000,000 on May 23, 2007.
- The Borrower submitted verification of zoning and local approvals for its proposed location in the City of Stockton.
- A TEFRA hearing was held by the Stockton City Counsel on July 10, 2007, and no comments in support of or in opposition to the Project were received.

Financing Details: The Project will be funded with variable rate, weekly reset, tax-exempt Industrial Development Bonds (IDBs) and secured by an irrevocable, Direct Pay Letter of Credit from Exchange Bank. Wells Fargo or Union Bank will confirm the Exchange Bank Letter of Credit with a Stand-by Letter of Credit. The bond rating will be at least "F-1/A+" from Fitch or another nationally recognized rating agency.

Financing team:

Issuer: California Statewide Community Development Authority
Bond Counsel: Gilmore & Bell, P.C.
Underwriter: BNY Capital Markets
Financial Advisor: Sperry Capital, Inc.
Trustee: Wells Fargo or TBD

Legal Questionnaire: Staff has reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the Application. There was no information disclosed that raises questions concerning the financial viability or legal integrity of the applicants.

Recommendation: Staff recommends approval of Initial and Final Resolution No. 07-0015 for an amount not to exceed \$8,000,000 in tax-exempt bonds for American Biodiesel, Inc. and/or an affiliate, subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinion and CDLAC allocation approval as set forth in Initial and Final Resolution No. 07-0015.

**AMERICAN BIODIESEL, INC.
AND/OR AN AFFILIATE**

Bond Amount: \$8,000,000

Stockton (San Joaquin County), CA

Application No. 07-0015

August 28, 2007

STAFF SUMMARY – CIDFAC

Prepared by: *Michael Smith*

ISSUE:

On behalf of American Biodiesel, Inc. (dba Community Fuels) and/or an affiliate (the “Company”), the California Statewide Communities Development Authority (“CSCDA” or the “Issuer”) requests approval of Initial and Final Resolution No. 07-0015 for an amount up to \$8,000,000. Bond proceeds will be used to design, construct, and operate a biodiesel manufacturing plant (the “Project”).

CDLAC. The Company anticipates receiving allocation at the September 26, 2007 CDLAC meeting.

BORROWER/USER:

Community Fuels was incorporated in California on December 3, 2004. The Company produces high-quality biodiesel fuel and, as a by-product of the biodiesel, glycerin.

The principal stockholders of the Company are as follows:

Jeffery & Anne-Marie Allen	22.8%
Bradley Baker	22.8%
Codding Enterprises.....	17.3%
Other Major shareholders (less than 10%).....	37.1%
Total:	<u>100%</u>

Legal Questionnaire. Staff has reviewed the Company’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raises questions concerning the financial viability or legal integrity of this applicant.

Prior Actions and Financings. None

LOCAL GOVERNMENT SUPPORT:

None received.

PROJECT INFORMATION:

The Company will lease land and a 40,000-square foot warehouse building from the Port of Stockton. The term of the initial lease is three years (with options to extend the lease for four additional five-year periods for a total lease term of up to 23 years).

The Project involves the renovation of the existing warehouse building to add a processing area, control room, boiler room, laboratory, and restrooms. The Project also includes the purchase and installation of biodiesel manufacturing equipment on the leased land. A two-acre open yard will be graded and concrete slabs will be built to support (1) storage tanks for feedstock, chemicals, and the finished products; (2) a cooling tower; 3) a distillation column; and (4) an emergency generator. This area will also accommodate loading and unloading equipment, an office trailer, and a parking lot. The Project is being designed to initially produce approximately 7.5 million gallons per year of biodiesel.

According to the Company, biodiesel is most commonly used for blending with petroleum diesel. The Company plans to sell the biodiesel produced at the Stockton facility to fuel distributors, which will manage the blending process and will sell the blended fuel to the end-users. Community Fuels anticipates that the end-users of the biodiesel fuel will be a sampling of the traditional diesel markets, which include agriculture, the construction industry, commercial trucking fleets, and public sector fleets belonging to cities, counties, school districts, and the military.

The Company has signed letters of intent with regional fuel distributors, including Royal Petroleum, San Francisco Petroleum, Biofuels Oasis, Peoples Fuels, and Van De Pol Enterprises. The Company's lease includes a provision whereby the Port of Stockton will be given preference for up to 25 percent of the biodiesel produced. The Company is also registered with the Defense Energy Support Center (DESC), which oversees all of the Department of Defense's bulk fuel purchases. Under this registration, the Company will be able to bid on contracts to supply biodiesel to the Department of Defense.

The Company also will produce crude glycerin, which is a by-product of biodiesel. The glycerol (commercial name for glycerin) will be sold wholesale in bulk to third parties for use in various industrial applications.

The anticipated Project and issuance costs are listed below:

Rehabilitation of Existing Building	\$1,600,383
New Equipment	4,346,632
Engineering, Permits, etc.	1,170,951
Bond Issuance & LOC fees.....	<u>882,034</u>
Total:	<u>\$8,000,000</u>

Anticipated Timeline. Construction at the site and renovation of the building began on April 10, 2007 and are anticipated to be completed by January 31, 2008. Commercial operation is anticipated to commence on approximately February 28, 2008.

Status Of Permit/Other Required Approvals:

- The California Statewide Communities Development Authority (CSCDA) approved the Inducement Resolution in an aggregate amount not to exceed \$5,000,000 for the Project on May 15, 2006. It approved a second Inducement Resolution in an aggregate amount not to exceed \$10,000,000 on May 23, 2007.

- The Borrower submitted verification of zoning and local approvals for its proposed location in the City of Stockton.
- A TEFRA hearing was held by the Stockton City Counsel on July 10, 2007, and no comments in support of or in opposition to the Project were received.

STATUTORY CRITERIA. 1) Public Benefits, 2) Relocation, and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent with CDLAC guidelines. However, CDLAC does not require the evaluation of points for all statutory criteria.

- 1) **PUBLIC BENEFITS.** The staff assigned a total of 38 verifiable points to the Project, which are detailed below:

Community Economic Need (13 points).

Unemployment Rate of Project Area (10 points): The unemployment rate for the Project area is 9.10%, while the statewide average unemployment rate in California is 4.9%. Therefore, the unemployment rate for the Project area is 186% of the statewide rate.

Poverty Rate of Project Area (3 points): The average poverty rate of the census tracts for the Project area, and of the area within a one-mile radius of the Project area, is 12.62%, which is 119% of the statewide average of 10.6%.

Employment Benefits (Job Creation/Retention = 0 points): Although the Company was not awarded points for job creation/retention, the Company represents it currently employs six individuals. The Company anticipates hiring not less than an additional 35 employees within two years of Project completion.

Welfare-to-Work Plan (5 points): The Company anticipates creating 35 additional jobs within two years of Project completion. The Company will be participating in San Joaquin County's CalWorks Welfare to Work program to meet its staffing needs (see Attachment A).

Health Care Benefits (5 points): The Company currently offers health care benefits to all employees who work at least 30 hours per week and their eligible dependents, and it has provided documentation of its contribution to the medical, vision, and dental insurance for five of its six employees and their families. The contribution translates into an average \$405.64 per month toward the health care benefits for each participating employee. The Company will offer the same benefits package to all employees at the new Stockton facility.

Average Hourly Wage (5 points): The Company's projected average hourly wage will be \$30.41, while the Stockton/Lodi Metropolitan Statistical Area (MSA) has an average manufacturing wage of \$14.57 per hour. Therefore, the Company's average hourly wage is 209% of the average manufacturing wage in the Stockton/Lodi MSA.

Land Use/Energy Efficiency (10 points): The Company is using land and a building that was previously vacant. The Company is participating in Pacific Gas & Electric's (PG&E's)

customized Energy Efficiency Demand Response incentive program. As part of the program, PG&E contracted with Nexant, Inc. to evaluate and identify energy efficiency opportunities in four areas of the Project. The draft report identifies the following energy savings:

1. Lighting Systems – 29,952 kWh/year
2. Variable Frequency Drive Applications – 410,225 kWh/year
3. Premium Efficiency Motors – 11,559 kWh/year
4. Glycerol Interchangers – 49,919 therms/year

The Nexant analysis indicates that the Project will realize a 28 percent kWh/year savings and a nine percent therms/year savings as compared to commonly accepted industry efficiency standards.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company headquarters will remain at its current location in Encinitas, CA. This Project is to build the Company’s first biodiesel manufacturing facility.
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financial structure and based upon the application and other materials submitted to CIDFAC for the proposed Project, staff believes the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just, and equitable to a purchaser of the bonds; and (c) will not work a fraud upon the bond purchaser. Final determination of qualification of the bonds will be subject to review of final bond documents prior to the issuance of bonds.

FINANCING DETAILS:

The Project will be funded with variable rate, weekly reset, tax-exempt Industrial Development Bonds (IDBs) and secured by an irrevocable, Direct Pay Letter of Credit from Exchange Bank. Wells Fargo or Union Bank will confirm the Exchange Bank Letter of Credit with a Stand-by Letter of Credit. The bond rating will be at least “F-1/A+” from Fitch or another nationally recognized rating agency.

FINANCING TEAM:

Issuer: California Statewide Community Development Authority
Bond Counsel: Gilmore & Bell, P.C.
Underwriter: BNY Capital Markets
Financial Advisor: Sperry Capital, Inc.
Trustee: Wells Fargo or TBD

RECOMMENDATION:

Staff recommends approval of Initial and Final Resolution No. 07-0015 in an amount not to exceed \$8,000,000 of tax-exempt bonds for American Biodiesel, Inc. and/or an affiliate, which is contingent upon staff analysis and approval of final bond documents, including receipt of bond counsel’s opinion and CDLAC allocation approval as set forth in the Initial and Final Resolution.

INITIAL AND FINAL RESOLUTION
OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR No. 07-0015

WHEREAS, California Statewide Communities Development Authority (CSCDA) (Authority) has transmitted the application of American Biodiesel, Inc. (DBA Community Fuels) and/or its affiliates, (Applicant) for the issuance of \$8,000,000 of tax exempt bonds under the provisions of the California Industrial Development Financing Act, and has informed the California Industrial Development Financing Advisory Commission (the Commission) that it has adopted a resolution declaring its intention to issue such bonds and that the County of San Joaquin has held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Authority; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that:

(a) the public benefits from the acquisition of the facility described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the estimated principal amount of \$8,000,000; and

(b) use of the Project described in the application and the operation of the facility described in the application is reasonably necessary to prevent the relocation of

substantial operations of the Applicant from an area within the State of California to an area outside of the State of California.

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will apparently be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) that the final legal documents, when ready for execution, be submitted for review by Commission staff. Submitted documents shall include:

- (i) Loan Agreement,
- (ii) Indenture of Trust,
- (iii) Opinion of Bond Counsel,
- (iv) Bond Resolution,
- (v) Letter of Credit, and

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(vi) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(b) that the Commission staff determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which the findings under Section 2. above are based;

(c) that the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(d) that the Commission receive all applicable fees prior to the issuance of the bonds or that bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(e) that the Applicant has agreed to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

Attachment A



SAN JOAQUIN COUNTY

JOSEPH E. CHELLI
Director

P.O. Box 201056

102 South San Joaquin Street

Stockton, CA 95201-3006

Tel: (209) 468-1000
Fax: (209) 468-1988

CalWORKS
Children's Services
Aging & Adult Services
Mary Graham Children's Shelter

July 2, 2007

James Hamill
Program Manager
California Statewide Communities Authority
2033 North Main Street, Suite 700
Walnut Creek, CA 94596

RE: Welfare to Work

Dear Mr. Hamill:

I am writing in regards to Community Fuels' participation in the CalWORKs! Welfare to Work program.

As a new biodiesel production facility at Rough and Ready Island Port of Stockton, Community Fuels is actively recruiting local and eligible applicants from both CalWORKs construction and warehouse training programs. While not everyone that we train has the applicable experience for a biodiesel facility, Community Fuels is willing to screen eligible candidates for entry level positions at their location.

To date, Community Fuels has been in contact with the San Joaquin County Work Net, an agency that also recruits eligible welfare to work applicants, met with two of our Job Development staff and has shown willingness to participate in a larger recruiting meeting for various agencies.

If you would like to contact me or if you have any questions, you can reach me at (209) 953-7017 or ctupas@co.san-joaquin.ca.us.

Sincerely,

Christina C. Tupas
CalWORKs Job Developer

Our Mission is to lead in the
creation and delivery of services that improve
the quality of life for our community.

